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Hallgarten & Company

Initiating Coverage

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Yukon-Nevada Gold (TSX: YNG)
Strategy: Long

Key Metrics		
Price (CAD)	$	0.26
12-Month Target Price (CAD)	$	1.50
Upside to Target		477%
12mth hi-low CAD		$0.07 - 0.41
Market Cap (CAD mn)	$	164.8
Shares Outstanding (millions)		633.8
Fully Diluted (millions)		936.5

	FY09	FY10e	FY11e	FY12e
Consensus EPS		n.a	n.a	n.a
Hallgarten EPS		($0.02)	$0.19	$0.19
Actual EPS	($0.130)			
P/E	n/a	n/a	1.4	1.4
Dividend	0.00	0.00	0.05	0.08
Yield	n/a	n/a	19.2%	30.8%

Yukon-Nevada Gold

Pulling Out of Its Dive

- + Production should ramp up from here until year-end 2010 with targeted production of over 300,000 ozs in FY11
- + With its environmental and financial travails behind it the company is moving forward with a veteran turnaround manager at the helm
- + The company has supportive Swiss investors behind it and does not currently see any need for financing with all foreseeable capex achieved through internal cashflow
- + The company has excess mill capacity and is looking to buy feedstock from Newmont and/or Barrick to put through its refractory mill
- + The company's Ketza mine in the Yukon could be brought into production for a relatively low capex (around $25mn) . It is nevertheless relatively small
- ✘ The stock is not exceptionally liquid at this time and we believe this is the prime issue management needs to address to attract an institutional following and get a mid-tier market cap to match its mid-tier production outlook
- ✘ As the company went radio silent for a long while, until recent weeks, it has dropped off the radar screens of many investors and those that do remember its "glory days" only remember how that ended in tears.

Producing and Near-Producing

Yukon-Nevada Gold Corp. (TSX: YNG & Frankfurt:NG6) is a North American gold company in the business of discovering and developing gold deposits. The company holds a diverse portfolio including a producing mine in Nevada and a near producing mine in the Yukon Territory. In Nevada, its Jerritt Canyon property is virtually an entire district of its own with various producing, mothballed and past producing mines. Its asset base includes one of only three refractory roasting facilities in Nevada, a very strategic playing piece.

A debacle reversed

YNG shares drove off a cliff in the second half of 2008. Hapless management resulted in the company being within hours of having its electricity shutoff and its existence eventually being terminated. The company had degenerated into an overstaffed, underfunded, unprofitable and unviable entity with environmental problems as the icing on its cake. Its mine was grossly overstaffed and had over 520 workers (compared to 120 today) with the result that cash costs were unacceptably high and the company could not continue operating in the mode to which it had become accustomed. The stock price had fallen from over $2 to a mere 2 cts.

At this darkest hour a group of Swiss investors threw out a financial lifeline in the form of an immediate cash injection and brought into the management a veteran turnaround expert in the form of Roy

Baldock. He immediately terminated the bulk of the workforce and got rid of the contract mining operator. The Swiss then injected a more significant amount of money, having been reassured that a turnaround was in progress under competent administration.

The Fixer

In light of the chaotic situation at the company and its dramatic fall from grace with investors extreme measures were required and, as previously mentioned, the company drafted in Roy Baldock as President, CEO and as a Director . He has a track record in more recent years as a mining executive as well as being a veteran accountant with over 30 years of bankruptcy, administration (in the Chapter 11 sense) and turnaround experience of public and private corporations across a wide range of industries, but with a focus on the mining industry in particular. He was the co-founder and Managing Director and subsequently Executive Chairman of Golconda Minerals group of mining companies listed on the ASX, NASDAQ and Stuttgart Stock Exchanges. He was also President of a controlled subsidiary, Nevada Goldfields Corporation, listed on the TSX, Toronto, NASDAQ, USA and Stuttgart Stock Exchanges. His roles with the Golconda Group also included being Managing Director of Duketon Exploration Limited, listed on the ASX. During Mr. Baldock's period of tenure he had responsibility for capital raising to oversee the design, construction, commission and operation of six mineral processing plants and gold producing projects (including the Kingston and Aurora mines in Nevada). The other restructuring play he is involved in at the current time is Monument Mining, a gold producing company in Malaysia, where he is the President & CEO.

Some History

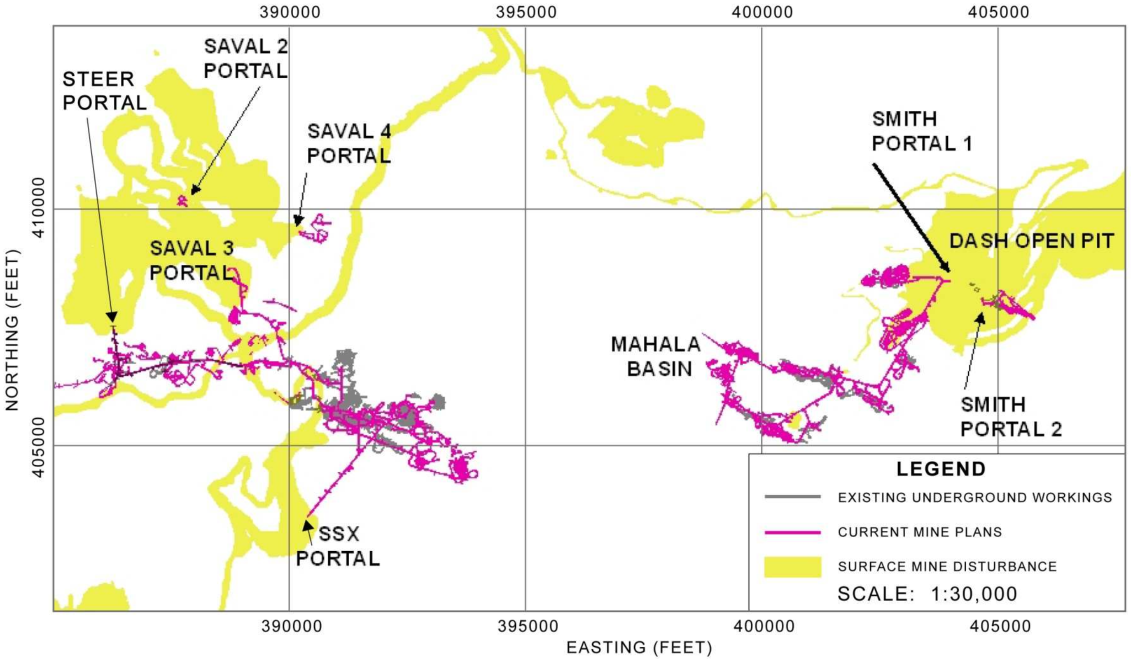
In its current form the company was created via a transaction, in May 2007, through a Plan of Arrangement between Yukon Gold Corp (YGC as it then was) and Queenstake Resources Ltd. to create Yukon-Nevada Gold Corp. As a result of the combination of the businesses and assets of the two companies Queenstake became a wholly-owned subsidiary of YGC and YGC changed its name to the current Yukon-Nevada Gold Corp. This created a broader North American focused mining entity.

Queenstake’s prime asset was the Jerritt Canyon mine where, in 1972, the first gold was discovered.. Open pit mining occurred between 1981 and 1999 with the first gold poured in July 1981. Portal-accessed, underground mining commenced in 1993 with the SSX-Steer Complex and the Smith mine. Since mining began, Jerritt Canyon has produced over 7 million ounces of gold.

Jerritt Canyon

The complex that YNG controls at Jerritt Canyon consists of an array of open-pit and underground mines (plus virgin prospects) that have been exploited over the last 30 years. None of the Jerritt Canyon mines exceed 1,000 feet in depth measured from the elevations at their portals.

The Jerritt Canyon deposits are typical of the Carlin-type deposit of micron to submicron-sized gold particles hosted primarily by carbonaceous, Paleozoic calcareous and sulfidic sedimentary rocks. Lesser amounts of ore are hosted by intermediate to mafic intrusive rock.



Gold in the Jerritt Canyon ore deposits occurs as free particles of intergranular, native gold, on or within pyrite, or in association with sedimentary carbonaceous material. Due to the sulfide and carbonaceous affinities, most of the gold deposits at Jerritt Canyon require fine grinding and oxidation to permit the gold particles to be liberated by standard, carbon-in-leach cyanidation.

The map above shows the core part of the district (Starvation Canyon though is off the map). Pits are in the valleys and the mines tend to be in the hills (as can be seen in the aerial view below). The current focus is the Smith mine to the East with the Steer/SSX underground complex at the western edge of the map being the secondary target for reactivation.

After the environmental travails of the company began (which were in the processing rather than the mining part of the complex) the company continued mining and thus accumulated significant ore stocks (to the detriment of its finances and cashflow). The current stockpile contains 980,000 tons of ore at an average grade of 0.074 opt Au for a total of 72,500 ounces of Au. This stockpile is now being milled along with ore being produced from Smith Mine.

Current plans are to reactivate the SSX/Steer deposit. The SSX deposit was discovered in the early 1990s and mining commenced in 1997. The deposit occurs 450 to 1,000 feet below the surface. It was, in the recent years) the main gold producer at Jerritt Canyon. The drift connecting the SSX and Steer mines was completed in late 2005, and the two mines are now referred to as the SSX-Steer Complex. By providing a secondary escape way and ventilation, this connection allowed commercial production from Steer to begin in 2005. The drift allowed the SSX-Steer deposits to share infrastructure in order to optimize production. The SSX- Steer connection also enables drill platforms to explore this prospective corridor. The complex was shuttered with the generalized problems at the Jerritt Canyon site back in 2008. This is now the prime target for reopening in the near term.

The reserves and resources shown below were published in the 2008 NI 43-101 compliant report prepared by SRK. This was constructed using a $580 per oz Au price.

Jerritt Canyon Reserves (2008)					
PROVEN			PROBABLE		
K tons	oz/st	K oz	K tons	oz/st	K oz
653.4	0.229	**149.9**	2,501	0.227	**567.4**

Jerritt Canyon Resources (2008)								
MEASURED			INDICATED			INFERRED		
K tons	oz/st	K oz	K tons	oz/st	K oz	K tons	oz/st	K oz
2,620	0.269	706.0	5,571	0.225	1,255	2,320	0.224	520

At the current time the new management is compiling historic drilling data to provide an overall view of how the various ore bodies on the property are related, with the goal of enhancing Reserve and Resource calculation through this broader overview. The former operators did not consolidate drill data. It is examining the potential of reactivating gold production from mines (open pits & underground) that were decommissioned at much lower gold prices.

Now that funds and cashflow are available there is an aggressive exploration campaign planned with numerous defined targets, many with historic positive drill intersections from over 25 years of data.

The Mercury Problem

The root cause of YNG's travails was ostensibly its environmental problems. Any hint of such a problem sends investors scurrying for cover, with stock price declines that make doing a financing into something akin to catching a falling knife. As confidence ebbs and investors flee the problem becomes compounded and a death spiral is induced. This is what occurred at YNG. In this case though the problem was compounded by a hapless management team.

In March 2008, following a year-long investigation into mercury emissions, the Nevada Division of Environmental Protection ordered Queenstake Resources to install new state-of-the-art emission control equipment at the Jerritt Canyon Mine by the end of that year. Before the NDEP's order was satisfied, Queenstake Resources, by its own action, stopped mining and processing ore at Jerritt Canyon Mine in August 2008. The facility remained shut down while the new emission control systems were designed. Staff from Queenstake Resources and the NDEP worked together to resolve several air emission issues related to the roasting operation.

NDEP issued an Order on March 25th 2009, allowing Queenstake to restart ore processing operations after the mine's initial environmental compliance was satisfied. The requirement to shut down the roaster did not affect the operation of the milling and gold recovery portion of the plant. The company claimed that this ensured that the company's cash flow and other operations could continue. However, without being able to roast the ore, the company ended up spending money stockpiling ore and not getting any income from it. This was the worst of all possible worlds.

The response of the company's new management was to take remedial action.

In July 2009 work was completed on the installation of a calomel emission system to control mercury emissions and the calibration of the system instrumentation. A Calomel mercury scrubbing system was installed. This is a proprietary technology developed by the company's COO, Graham Dickson. As a result recent stack tests achieved 90% under the allowable mercury and SO2emission limits. The company feels that it will be a market leader with this new proprietary technology in place. Additionally it has installed upgraded instrumentation necessary to monitor key operating parameters and automated emission control and operating systems.

In mid-October 2009 the company announced that it had come to an agreement with the NDEP in the form of a Consent Decree to resume production at the Jerritt Canyon. YNG had also carried out a significant overhaul and upgrade of many key components of the roaster, leach circuit, thickener and other sections of the mill. The Consent Decree resolved all of the compliance concerns of the NDEP in relation to the mill and the surrounding land holdings, as well as related environmental concerns and gave YNG the right to restart the milling facility from the effective date.

Beyond changes to the processing plant the company completed a number of tailings reclamation projects, including Seepage Pond reclamation and upgrades of fluid conduit and pumps. Now the capacity of existing tailings pond will be sufficient for three years. Plans are in place for a new 50mn ton fully lined tailings storage facility with ground breaking scheduled for late summer 2010.

Production goals

There are two components to the planned production at the Jerritt Canyon mine complex in Nevada, at least for the near future. The company has both the existing Smith mine and the million tons of stockpiled ore with which to work. By milling a combination of available stock piles and recommencing mining activity, Yukon Nevada is targeting a total production of 150,000 ounces of gold in the first full year of production at a cash cost of US$465 per ounce after re-start of operations and after the mill establishes steady state operation. In turn the commencement of operations and generation of positive cash flow will allow the company to commence repayment of all creditors and former employees. It is estimated this process will be completed in full in the 3rd quarter of FY10.

The company recommenced underground operations in February 2010 at the Smith Mine at the rate of 1,000 tpd and expansion is scheduled with the reactivation of SSX/Steer underground mine in the first part of 2011 that should add another 1,400tpd of ore for processing.

Stockpile processing

These two production sources are of course proprietary to YNG, but beyond that the spare capacity at the refractory mill opens up the possibility of the company treating ore from other miners. Doing this on a tolling basis is not of interest to YGN so they are targeting the purchase of more ore to put through their mill that would make the output countable as "YNG's gold", a situation that would not exist for tolled ore.

The target suppliers here are Barrick and Newmont with talks being advanced with both parties. The reality of the moment is that both companies are at full capacity at their refractory mills in Nevada and cannot add capacity. Thus they are focusing on processing 0.4-0.5 opt ore at this point and stockpiling the lower grade material. However, Newmont alone has accumulated a stockpile of unprocessed low-grade ore (mainly below 0.1 opt) that amounts to 53 millions tons. It makes sense that they should want to on-sell their low-grade ore because if they process it themselves it will pull down their headline grades and bring attention to their logistical problems in Nevada. Thus selling the ore at around $400 per contained oz to Yukon Nevada brings cashflow without corrupting the average grades of the majors' gold output. The issue of "why sell?" when these majors can retain the ore and process it after their mines are eventually exhausted is answered by the sheer scale of the ore that is mounting up and the environmental considerations from letting excavated sulphide ores lie around in large piles. Even selling 3,600 tpd of ore to Yukon Nevada is a mere drop in the bucket when one has the amount of stockpiled ore that these two gold majors control.

While processing another company's ore does not sound enormously sexy, we would note that a margin of $300-400 per ounce (plus the critical mass that running at 100% capacity brings) is not to be scoffed at. Yukon Nevada is excellently positioned with spare capacity in refractory milling when it is unlikely that refractory mills will ever see any capacity increase (or new facilities) in Nevada due to environmental issues.

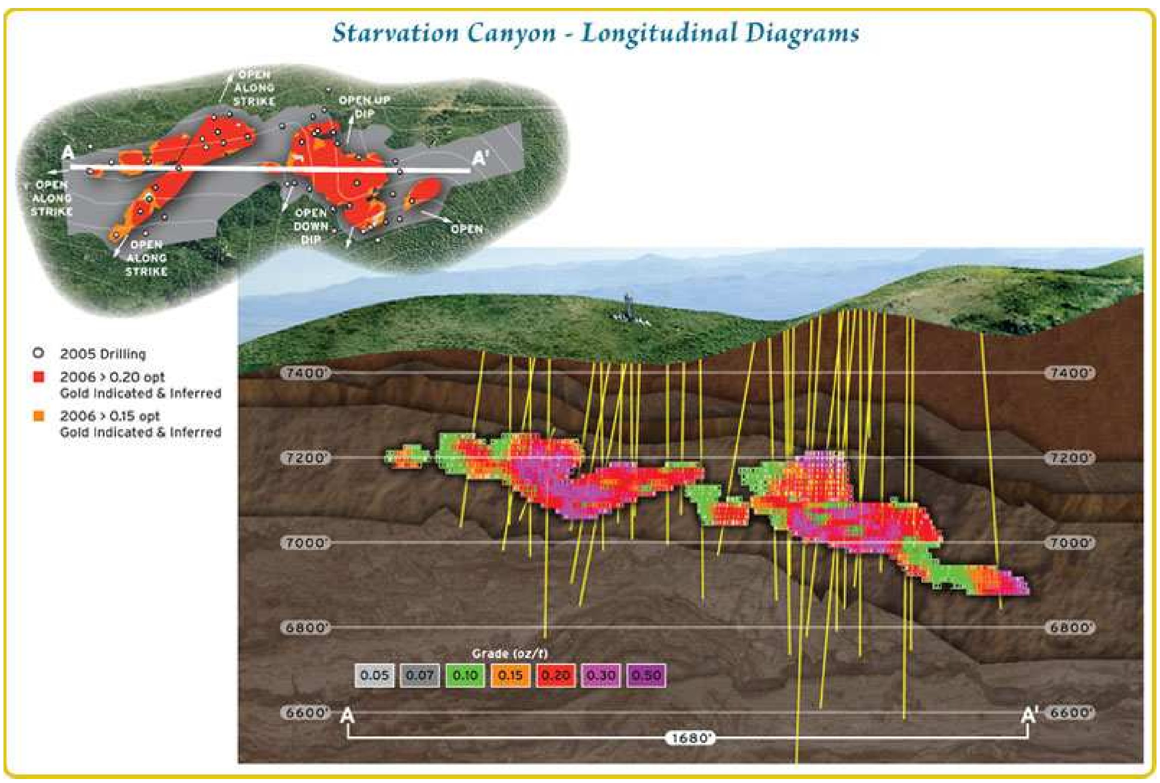
The "wet" mill

Largely unnoticed (and unhighlighted) in the company's inventory of assets is a "wet" mill for processing oxide ore. As the open pits at Jerritt Canyon, with their largely oxide ores, were last exploited some years ago the plant has been idle in a "care and maintenance" status. Resuscitating the extra plant would not involve very much expenditure (several millions of dollars) largely on minor parts and restoring deteriorated seals etc. The wet mill's capacity is substantial at 5,000 tpd but requires a source of oxide ore. This would most likely come from looking to expand the old open pits' resources with some step-out drilling. This is a plan for farther in the future though so we have not factored it into our earnings/production models out to FY12.

Starvation Canyon – next up?

Thus in relatively short order, Yukon Nevada will have the Smith and SSX/Steer mines in operation and will be looking to expand the potential of the oxide ore around the old open pits. Beyond that though it views Starvation Canyon as having the most potential to add sizeable new resources and production. The deposit is located on private land owned by Yukon Nevada in the southwestern part of the Jerritt Canyon District.

The discovery of high-grade mineralization at Starvation Canyon was the first substantial gold deposit found in the southern part of the district, an area considered to have similar geologic structures as the mines in the northern part. Drilling has identified a prospective 4 1/2-mile mineralized trend that includes Starvation Canyon and mineralized targets at Waterpipe II and Pie Creek. The northwest structure that appears to be the primary control for the Starvation Canyon resource could hold potential for additional clusters of mineralization both to the northwest and southeast.



The gold mineralized zone (shown above) lies above the water table in the area of steep topography and could be easily accessed by portal from the hillside.

The mineralized zones that host the Starvation Canyon deposit are mostly classified as indicated resources in the December 2007 reserve estimate with probable reserves of 571,600 tonnes grading at 0.282 opt giving 161,300 ozs Au. The Indicated Resource is 697,000 tonnes grading at 0.287 opt yielding

200,000 ozs Au. The grade is good and the resource is not enormous. However this should be put in the context of most of the infrastructure being already in place in close proximity. History at Jerritt Canyon has shown that the underground resources have excellent replacement as the mine advances.

Thus far, drilling has indicated that the thickness and grade of mineralization are comparable to that found previously at Jerritt Canyon. However, with the various crises besetting the company in 2008 and 2009, drilling any part of the property was a low priority. Thus the last meaningful announcements were in 2007 when the company announced one drill hole intersecting 45 feet of 0.33 ounce of gold per ton (opt) or 13.7 meters at 11 grams per tonne (gpt). Interestingly this was outside the area of the pre-existing resource calculation.

Legal Actions

The overturning of the old regime at the company brought with it a legal whirlwind with the company receiving two lawsuits. One was from Golden Eagle, the former mine contractor that was summarily terminated in the midst of the environmental debacle with the State government's authorities. The other was a class action initiated by the workforce that was laid off in August 2008. The action is for an alleged violation of the Federal WARN Act, Employment Retirement Income Security Act, State Labor Laws and to foreclose on labor liens not yet filed.

When the mine closed Yukon Nevada paid what it said was "as much as it could" from available cash at the time, toward what was then due under the Federal WARN Act, Employment Retirement Income Security Act, and State Labor Law obligations. Since then it has paid approximately 50% of the then remaining outstanding balance due under the Federal WARN Act.

At a recent meeting with the company it said that it was near to reaching a settlement on both issues that would not cost it more than a few million dollars.

Ketza River– the second string

This asset consists of two properties in the Yukon in Canada. Although the history of exploration and geological studies by government and institutions in the area dates back to the mid-1800s, the initial gold mineral deposits were discovered in the 1950s.

Ketza River Resource (2008)					
MEASURED			INDICATED		
K tons	g/t	K oz	K tons	g/t	K oz
712.2	6.4	**146.5**	3,369	4.61	**499.9**

During the 1980s, Canamax Resources Inc. undertook extensive mineral exploration on the property, leading to a feasibility study in 1987. Construction on the mine and mill facilities followed immediately. A CIP gold mill (which is still on the property) rated at 320 tpd processed feed from oxide manto replacement deposits from April 1988 to November 1990. Total gold production was 100,033 troy ounces from 340,000 tonnes (an average grade at the mill of 11.6 g/t Au) obtained from eight separate deposits. The Peel, Ridge and Break-Nuzone zones provided

85% of the mill feed. Average mill throughput was 364 tonnes per day with an average gold recovery of 88.6%.

As previously mentioned a $10M Flow-through financing was completed in May 2010 to fund an expanded exploration program. However in reality it seems that this money is actually going towards kickstarting mining at the site. As mentioned there is still a mill at the site and there is also a fully equipped camp and facilities.

Yukon Nevada has targeted production from Ketza River at an estimated 60,000 opa Au. We have not factored any production or income from this mine into our revenue model at this point but this could, in theory, start contributing in late FY12 and/or FY13.

Financing & Share Capital

This stock reminds us of the Rime of the Ancient Mariner. “Water, water everywhere and not a drop to drink”. The company has a truly prodigious number of shares on issue at the current time with a steady potential flow of warrants (most of which are in the money, coming down the pike. And yet, the company’s trading in relatively thin compared to other companies of similar size.

Share Structure (000's) (as of Tue May 11, 2010)

Shares issued:	633,886
Warrants:	254,627
Options:	47,997
Shares Fully Diluted:	936,510

This large number of shares on issue is a result of a number of recent events. The first being the merger with Queenstake. The second being the rescue financing largely funded by the Swiss investors in December 2008 and the third being the issue of “inducement warrants” in late 2009 and most recently a series of smaller financings including a flow-through financing that raised money to move the Yukon project forward.

In August 2009 the company held a non-brokered private placement in which some $4mn was raised via the issue of 40 million units at a price of $0.10 per Unit. Each unit consisted of one common share and one share purchase warrant. The warrant can be exercised to purchase one additional common share at a price of $0.125 per share within 30 months of closing of the private placement.

In October 2009 the company made a proposal to its warrant holders (largely those investors who had taken up the December 2008 issue) to restructure their holdings via an issue of what it called “Inducement Warrants”. The stated goal here was to raise additional working capital to start up of the Jerritt Canyon operations, pay down the existing liabilities, invest in the facilities at Jerritt Canyon to meet the compliance requirements of the Nevada Division of Environmental Protection, and make further improvements to the gold production processes to enhance throughput at the mill, and carry out further exploration activity at the Jerritt Canyon and Ketza River properties.

The company wanted to encourage holders of the previous warrant issue to exercise, before their expiry date, up to an aggregate of 172,400,000 warrants consisting of 85,200,000 Class A warrants with an exercise price of $0.07 per share and 87,200,000 Class B warrants with an exercise price of $0.09 per share.

The Class A warrants had an expiry date of December 19, 2009 and the Class B warrants had an expiry date of June 19, 2010. The offer was that if a holder elected to exercise an Existing Warrant, Yukon Nevada would issue to that holder an inducement warrant, representing the same number of shares as the existing warrants exercised by the holder. The Inducement Warrant would be exercisable for 24 months from the date of issuance.

In early January the company announced that the transaction appeared to have been a success. As at November 13, 2009 the closing price of the ordinary shares was $0.26, (271% over the exercise price of the December Warrants) and were therefore significantly in-the-money. The closing price of the shares on January 7, 2010 was $0.30, $0.23 (329%) over the exercise price of the December warrants and were therefore also significantly in-the-money.

In total the company received (including $5.96mn received from the exercise of the December warrants) a total of $17.4mn by the early exercising of the warrants issued pursuant to both the December 2008 and the August 2009 private placements.

More recently in late March 2010 Yukon Nevada closed a CAD$5mn non-brokered private placement for a total of 22,727,272 common shares at a price of $0.22 per share and, just after that, in late April 2010, the company held a brokered private placement for gross proceeds of around $10mn through the sale of 36.4mn flow-through common shares at $0.275 per FT Share. As this money has to be dedicated to projects within Canada, this has been earmarked towards getting the Keska River project (discussed later) moving forward.

If one thing is clear after all this process it is that the company is seriously in need of a stock consolidation of at least 1:10 to get the number of shares down and make the company more acceptable to an institutional base.

Earnings Outlook

The model that follows lays out our thoughts on how earnings may evolve over the next few fiscal years. Prime considerations in constructing this model include:

- We are presuming an average price of Au of $1,150 for FY10 and $1,100 for FY11 and FY12
- Mining of 1,000 tpd from the Smith mine at a grade of 0.23opt for the rest of FY10
- Processing of ore from YNG's (one million tonnes) stockpile at the rate of 2,000 tpd
- This gives capacity utilization at the mill of 50%
- We are presuming this remains the situation until mid-2011 when the ore stockpile of YGN has been fully utilized
- The SSX mine is figured to come on stream from the start of FY11. This would bump up production of mined ore from 1000 tpd to 2400 tpd
- Exploitation of "bought" stockpiles should begin at the start of 2011
- This will bump capacity utilization up to 100% of the dry mill at the start of 2011
- Cost of buying in the ore and milling it will be around $750 per oz of Au produced thereafter

- The bought in ore should grade around 0.12 opt while the mined ore should be around 0.23 opt
- The cost of processing ore through the mill is $31 per tonne, including $3 for tailings (being a sort of sinking fund for the construction of the new tailing's pond facility)
- It should be noted that the mining cost of the existing ore pile was born by the P&L in previous years so the marginal cost of the ounces that come from working over this ore is just the $31 per tonne
- We have not factored in any Ketza production
- We have not factored in any production that may come from oxide material being put through the revived wet mill

Key Metrics

	FY12e	2H11e	1H11e	2H10e	1H10e
Revenue - Mine	212.52	106.26	106.26	46.29	20.32
Stockpile - own	-	30.80	30.80	32.20	
Stockpile - purchased	207.9	83.16	-		
Total Revenue	420.42	220.22	137.06	78.49	20.32
Cost of Revenue -mined	89.84	44.92	44.92	23.99	11.04
Cost of Revenue -own stockpiles			10.85	10.85	
Cost of Revenue - bought stockpiles	112.95	56.47	25.10		
Gross Profit	217.64	118.83	56.19	43.65	9.28
Ozs of Au Mined	193,200	96,600	96,600	40,250	18,516
Ozs of Au Milled (own stockpile)			28,000	28,000	
Ozs of Au Milled (bought in)	151,200	75,600	33,600		
Mill throughput (tpd)	6,000	6,000	6,000	3,000	
Utilisation	100%	100%	100%	50%	
Cash cost - mined oz	465	465	465	596	
Cash cost - purchased ore - oz	747	747	421.5	n/a	

Thus our view of the company's earnings potential in the relatively near future is very bullish indeed. Revenue is already flowing and should be exceptionally low cost as the company works through the ore stockpile.

Thus our outlook for FY10 is for a small loss (the result of the $44mn charge for the issue of the Inducement Warrants) of $12.78mn. Essentially the first half of FY10 is one of getting the mine going again then the second half is the ramp up of the mine and the processing of stockpiled ore. By year end this transition phase will be complete and then the purchased ore should start to flow through, competing with the company's own stockpiled ore and its increasing mine output (from the SSX mine). This produces an expansion of magnitude in the revenues and gold output. We are estimating that gold production in FY11 might be nearly four times the level of the current year.

The result of this production surge should be a rise in post-tax results to around $119mn in FY11. Curiously our FY12 revenues are slightly higher but so are our costs, with the result that the bottom line comes out almost unchanged.

Yukon Nevada Gold

	FY12e	FY11e	FY10e	1Q10	FY09	4Q09	3Q09	2Q09	1Q09	FY08	FY07	FY06
Revenue - Mine	212.52	212.52	66.61	10.16	9.91	5.12	0	4.79	0	48.98	64.46	0.41
Stockpile - own	-	61.60	32.20	-	-	-	-	-	-	-	-	
Stockpile - purchased	166.32	83.16	-									
Total Revenue	378.84	357.28	98.81	10.16	9.91	5.12	0	4.79	0	48.98	64.46	0.41
Cost of Revenue -mined	89.84	89.84	35.02	13.47	26.05	18.55	1.35	6.09	0.07	58.74	48.22	0
Cost of Revenue -stockpiles	112.95	92.42	10.85									
Gross Profit	176.06	175.02	52.93	-3.31	-16.14	-13.42	-1.35	-1.3	-0.07	-9.76	16.24	0
Selling/General/Admin. Expenses	5.40	5.20	4.70	1.23	3.92	1.3	1.31	0.49	0.83	5.15	9.11	1.63
Depreciation/Amortization	46.75	46.75	14.65	1.29	6.27	1.7	1.53	1.55	1.5	9.28	5.73	0.02
Unusual Expense (Income)	0.00	0.00	0.00	0	11.2	1.11	5.18	2.46	2.45	94.01	0	0
Other Operating Expenses	3.70	2.70	2.00	0.72	2.89	0.73	0.72	0.72	0.72	2.12	1.08	0.16
Total Operating Expense	258.64	236.91	67.23	16.71	50.34	23.39	10.08	11.3	5.56	169.29	64.14	1.8
Operating Income	120.20	120.37	31.58	-6.55	-40.42	-18.27	-10.08	-6.52	-5.56	-120.31	0.32	-1.39
Interest Income(Expense)	-1.00	-1.00	0.50	0.1	-0.01	0.46	-0.41	-0.14 -		4.63	2.5 -	
Inducement warrants	0.00	0.00	-44.86	-44.86	0	0	0	0	0	-1.9	-4.32	0
Income Before Tax	119.20	119.37	-12.78	-51.41	-42.8	-18.31	-11.67	-7.69	-5.14	-117.44	-0.93	-1.39
Tax				0	-0.14	-0.24	0.01	0	0.08	-12.08	0.97	-0.11
Income After Tax	119.20	119.37	-12.78	-51.41	-42.66	-18.07	-11.68	-7.69	-5.22	-105.36	-1.9	-1.28
Weighted Average Shares	633.8	633.8	633.8	578.8	338.97	405.49	355.22	311.96	283.19	185.12	121.43	53.15
EPS	0.19	0.19	-0.02	-0.09	-0.13	-0.04	-0.03	-0.02	-0.02	-0.57	-0.02	-0.02
Diluted Weighted Average Shares	936.5	936.5	936.5									
Diluted EPS	0.127	0.127	-0.014									
Ozs of Au Mined	193,200	193,200	58,766	9,258	9,770	4,590		5,180		44,732		
Ozs of Au Milled (own stockpile)		28,000	28,000									
Ozs of Au Milled (bought in)	151,200	109,200										
Cash cost - mined oz	465	465	596									
Cash cost - purchased ore - oz	747	747	422									

In reality other mines may have come into play by 2012 but without firm plans for these other developments that would involve more conjecture than we are currently prepared to undertake.

The dilution from the warrants is potentially substantial (around 30% if all are exercised). In theory holders would want to exercise if there was the prospect of a dividend but there is no real reason to exercise otherwise until the expiry date (which is 24 months from issuance). However the timing of any conversion en masse, or ad hoc, by individual holders is a great unknown at this point.

However, with a current market capitalization of around $150 mn a net profit of $119mn is indeed impressive and we are only conjecturing one year out to achieve this goal. We also suspect that the Swiss investors will want a dividend at some point and the company will be in a good position to start a regular payout from FY11.

Management/Board

The main driver of the new management *putsch* at Yukon Nevada is clearly Roy Baldock but it is worth looking at the rest of the team. Most notable though of the rest is Graham Dickson who is theCOO and a director. He has worked in mining in North America for the last 24 years. On the practical side he was the general manager of a turnkey construction company for gold milling facilities in remote locations, including the Snip Mill for Cominco., Golden Patricia Mill for Bond Gold and Seabee Mill for Claude Resources. Before joining YNG, Mr. Dickson served in various capacities with BYG Natural Resources Ltd., which had an operating gold mine in the Yukon Territory. Further afield, he completed the surface facilities for Bema Gold's Julietta mine in Far East Russia.

Other non-board management members of note are:

Adam Knight is the mine manager. He has extensive mining engineering experience at Jerritt Canyon with AngloGold and Independence Mining Company. In the past he was the Mine General Manager with Premier Chemicals, Gabbs Operations, Nevada.

Todd W. Johnson is the Vice President Exploration. He has 20 years mining industry experience including ten years at Noranda-Hemlo Gold Mines group, involved with the New World Au (Cu-Ag) discovery in Cooke City, Montana. He also significantly contributed to the multi-million ounce resource expansion at the Phoenix Au (Cu-Ag) mine in Battle Mountain, Nevada, currently in production by Newmont.

John Barta, the Environmental Manager shows that the company is putting a stress of this area that has previously been a failing at Jerritt Canyon. He has 25 years mining industry experience including being Manager of Environment and Permitting for Golden Predator Mines Inc., the Florida Canyon Mine for Apollo Gold and the Standard Mine for Jipangu International, all in Nevada. He was also Environmental Manager for 9 years at the Getchell Mine in Nevada for Placer Dome

The Franco-Swiss contingent on the board essentially represent the Swiss interests that rescued the company. It consists of Jay Schnyder, a member of the management committee (Head of Refining) of MKS Finance SA, a precious metals and financial services group of companies specializing in all aspects of gold and other precious metals processing and trading based in Switzerland.

Also there is Jean-Edgar de Trentinian is a heavyweight director with the type of resume only a French high-flyer can have. He is close to the Swiss players in the company. He has administered and owned (either partially or fully) a large number of companies over the years. Amongst his mandates or ownership include a division of Générale de Fonderie, Atlas Air France, Editoriale Domus of France, VSD Magazine, Lalique, the Brigitte Bardot Foundation, Perfumes Charles Jourdan. He was also a diplomat, Head of Mission in Geneva Switzerland. Partner and director of Studio 4 x 5. Shareholder and director of EDIPOP s.a. Shareholder and director of HAP AX holdings (industry). Publisher and director of the top magazine for French residents (Switzerland) "Le Journal Français". Member of the foundation Jean Monnet for Europe. Director of CARREFOUR s.a. (Publishing Fribourg). Director of HENMAR s.a. (Real Estate). Director of the institute for 'Trusts Protectors' (Fribourg). He is currently shareholder, President and C.E.O. of ORIFER.

Another representative of the Swiss camp is Pierre Besuchet. He is a director of the Faisal Private Bank (Switzerland) SA, Geneva and the Indufina, Industrielle et Financière Holding Genève SA and is a director of the following North American Companies: W2 Energy Inc., FNDS3000 Corp and Solar Energy Initiatives, Inc. Mr. Besuchet has held senior positions with various banks in Geneva including Union Bank of Switzerland, Banque Nationale de Paris, Banca della Svizzera Italiana of Switzerland and Credit Suisse of Switzerland. He has also been on the board of several Canadian companies including Novagold, Etruscan Resources Inc., Lundin Mining and Orko Silver Corp.

John Greenslade is familiar to us from his role (as President & CEO) at Baja Mining, a company we have followed closely over the years, which is currently in construction stage at the Boleo Project, Mexico. He initially joined Placer Development Corp. (now Placer Dome Inc.) as a metallurgist. He has been involved in the funding of numerous mining projects in Canada, the United States, Mexico and Peru.

Gerald Ruth is a chartered accountant that brings financing heft to the board. He is currently CEO of Gersan Capital Corp. and a Director of Ecosse Energy Corp. He has been an independent corporate finance consultant since 2003, a Director and audit committee member of various private and public companies including formerly TSX-listed Western Goldfields (which was taken over by New Gold). He also worked for the Toronto Stock Exchange for over 15 years and was the head of the listings group for the last six of those years.

The last director is Simon Solomonidis who is a veteran senior corporate executive having formerly worked with Hewlett-Packard Europe.

Risks

Laying out the risks for the company six months ago would have been an expansive task but now the list has been whittled down quite significantly. Old problems like financing risk, environmental risk and mine viability are now in the past.

The chief pitfalls that might await the company are:

- Inability to negotiate sufficiently attractive terms for processing ore from Newmont and/or Barrick

- Further problems with the environmental issues
- Legal setbacks with on-going litigation

On these issues we would note that, respectively, the massive amounts of ore held by these parties are above and beyond any amount that they could conceivably process in any scenario except one in which their mines close and thus their mills are freed up to work exclusively on stockpiles. The plan as stands is a win-win for both sides. The environmental issues appear to be behind the company but being the US anything can happen from unexpected quarters. As for the litigation, it is relatively insignificant and should be resolved in the very near future in both instances.

Conclusion

Each day seems to bring more Nevada mining stories and the area is truly one of the great mining provinces. Indeed there is one statistic floating around that Nevada, if a separate country, would rank in the top ten gold producers in the world. Despite this boosterism, the Nevada gold scene is narrower than it looks, in fact being dominated by Newmont and Barrick in terms of production. Most of the corporate names that are in the Nevada space are not producers, even some of the largest cap plays.

Then there is Yukon Nevada. The things that separate it out from the pack are firstly that it is a producer and secondly that it has in its possession one of the few refractory mills in the state. With the preponderance of sulphide ores in Nevada projects of size the ownership of, or access to, a mill capable of processing refractory ores is a key factor. Not only does Yukon Nevada have the prospect of having three mines in operation on its Jerritt Canyon site within three years (with the strong likelihood of Ketza in the Yukon also being functional) but it has a stranglehold on the only spare capacity in the refractory mill sphere in Nevada. This sounds like the fruit machine is ringing up all the right fruit for the company.

Just on the basis of its expected production over the next twelve months the outlook justifies a market capitalisation north of $500mn, but when considering the extra potential to add production (both mined and "bought in") the company leaps into the front rank of North American producers with the potential for gold sales of 400,000 ozs in FY12. This makes Yukon Nevada the largest gold producer you have never heard of. It probably falls through the cracks with those analysts and investors who obsess over calculations based upon NI 43-101 reserves. This is ironical because it is actually other companies' stockpiles that will be making up half the production of YNG. So in this case those using simplistic measures are "missing the gold for the stockpiles", if we can mix a metaphor.

We could not ask much more of Yukon Nevada at this point except that it consolidate its shares into more acceptable units for the institutional clientele it hopes to cultivate.

Thus we are initiating coverage of Yukon Nevada with a **Long** rating and a twelve-month target price of $1.50. Usually we do not envisage such great uplift in a company's share price unless the company is a microcap, but in this case it is not hard to see how the company could make such a share price move on a combination of a sheer surge in its ounces produced, its top-line revenues and its bottom-line upwelling. If Allied Nevada can be spoken of in hushed tones and sparkling valuation then so can Yukon Nevada.


YUKON-NEVADA GOLD CORP.
YNG.TO
Jun 21, 2010
0.35
0.30
0.25
0.20
0.15
0.10
0.05
© Yahoo!
Jul 09
Sep 09
Nov 09
Jan 10
Mar 10
May 10
Volume
8.0
6.0
4.0
2.0
0.0
Millions

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